Tapestry Inc to Acquire Capri Holdings Ltd - Final

FD (Fair Disclosure) Wire

August 10, 2023 Thursday

Length: 6750 words

Body

Corporate Participants

* Christina Colone

Tapestry, Inc. - Global Head of IR

* Joanne C. Crevoiserat

Tapestry, Inc. - President, CEO & Director

* John D. Idol

Capri Holdings Limited - Chairman & CEO

* Scott A. Roe

Tapestry, Inc. - CFO & COO

Conference Call Participants

* Aneesha Sherman

Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst

* Brooke Siler Roach

Goldman Sachs Group, Inc., Research Division - Research Analyst

* Irwin Bernard Boruchow

Wells Fargo Securities, LLC, Research Division - MD and Senior Specialty Retail Analyst

* Lorraine Corrine Maikis Hutchinson

BofA Securities, Research Division - MD in Equity Research

* Mark R. Altschwager

Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

* Matthew Robert Boss

JPMorgan Chase & Co, Research Division - MD & Senior Analyst

* Oliver Chen

TD Cowen, Research Division - MD & Senior Equity Research Analyst

* Paul Lawrence Lejuez

Citigroup Inc., Research Division - MD and Senior Analyst

* Robert Scott Drbul

Guggenheim Securities, LLC, Research Division - Senior MD

Presentation

OPERATOR: Good day, everyone, and welcome to this conference. (Operator Instructions) Today's call is being recorded. (Operator Instructions) At this time, for opening remarks and introductions, I would like to turn the call over to Tapestry's Global Head of Investor Relations, Christina Colone.

CHRISTINA COLONE, GLOBAL HEAD OF IR, TAPESTRY, INC.: Good morning. Thank you for joining us to hear about the definitive agreement we announced this morning related to Tapestry, Inc.'s acquisition of Capri Holdings Limited. We'll begin today's call with comments from Joanne Crevoiserat, Tapestry's Chief Executive Officer; Scott Roe, Tapestry's Chief Financial Officer and Chief Operating Officer; and John Idol, Chairman and Chief Executive Officer of Capri Holdings Limited. At the end of our prepared remarks, both Joanne and Scott will be available to answer your questions. We expect to end our call at approximately 08:45.

Before we begin, I would like to note that today's discussion contains forward-looking statements that are subject to the risks identified in both companies' SEC filings and other written communications related to the announcement. Please refer to the information on Slide 2 of the presentation posted to our website as well as the additional information contained in the SEC filings of both Tapestry, Inc. and Capri Holdings Limited.

With that, I am pleased to turn the call over to Joanne Crevoiserat, Tapestry's CEO.

JOANNE C. CREVOISERAT, PRESIDENT, CEO & DIRECTOR, TAPESTRY, INC.: Good morning, and welcome, everyone. Thank you for joining us on short notice. Today is an exciting day, and I'm very pleased to speak with you about Tapestry's acquisition of Capri Holdings. By uniting 6 iconic brands and our exceptional teams, we are creating a powerful new house of global luxury and fashion brands. This combination represents a unique and significant opportunity to drive superior value for our people, consumers, communities and shareholders around the world.

To begin, as many of you know, Tapestry is at its core, a people-centered purpose-led organization with a passion for brand building and unwavering focus on consumers and a commitment to being disciplined financial operators and stewards of capital. We've successfully transformed our company to power our iconic brands, Coach, Kate Spade and Stuart Weitzman to move at the speed of the consumer in an ever-changing environment. Importantly, our investments to create a robust data-driven consumer engagement platform have fueled our success; fostering innovation, agility and strong financial results. This foundation positions us to leverage our competitive advantages across a broader portfolio of brands. The acquisition of Capri marks an incredible milestone in our evolution as a company and accelerates our strategic agenda.

First, this combination expands our global reach. The combined company generates over $12 billion in revenue with a presence in over 75 countries and a portfolio serving unique customer segments within the global luxury market for handbags, accessories, footwear and apparel, a market that is over $200 billion today and growing. At the same time, we're broadening and diversifying our customer base through highly differentiated brands that deepen our access to luxury consumers and market segments, which are attractive and resilient. Second, together, we enhanced our global footprint and geographic diversification with our complementary positions in Asia and Europe. Third, with this acquisition, we're broadening our product offering and capabilities through an increased penetration of lifestyle categories where Capri brings expertise and there is further opportunity for growth across each of our

brands. Fourth, this combination further leverages Tapestry's consumer engagement platform and data analytics capabilities built on a modern technology infrastructure to drive deeper consumer connections.

Specifically, we believe our proven and profitable direct-to-consumer first model can drive an increase in Capri's direct-to-consumer penetration over time. This exceptional strategic fit provides a meaningful value creation opportunity. Accelerating our earnings potential and generating significant cash flow, which will support continued reinvestment in brand building as well as in our digital and data analytics capabilities that drive consumer insights and connectivity. Importantly, I have great conviction in our ability to deliver on the tremendous potential of this combination given the strength of our teams and the alignment of our values.

At Tapestry, we invite each employee to contribute their unique perspective to create a culture that's growing, dynamic and diverse, a commitment that is deeply shared with Capri. Uniting the diversity and passion of the more than 33,000 people across these 2 companies will ensure that we will consistently deliver on the opportunity ahead across each of our 6 iconic brands for years to come.

With that, it's my pleasure to turn the call over to John to share a few words.

JOHN D. IDOL, CHAIRMAN & CEO, CAPRI HOLDINGS LIMITED: Thank you, Joanne, and good morning, everyone. We are excited about the joint announcement this morning regarding the acquisition of Capri Holdings by Tapestry. As Joanne stated earlier, the 2 combined companies will create a new $12 billion global luxury group. When Tapestry first approached us about a potential transaction, I was immediately excited about the prospects. Tapestry has built a world-class company supporting its 3 highly recognized brands. Versace, Jimmy Choo and Michael Kors are powerful and iconic luxury houses, each with their own unique identity. There are 3 founders, Donatella Versace, Sandra Choi and Michael Kors, together with our talented group of employees around the world successfully built these brands from inception to the global fashion luxury houses they are today. I am confident that this transaction will help enable all 3 luxury houses to further accelerate their growth strategies.

Together with Tapestry, we will have greater resources and capabilities to accelerate the expansion of our global reach while preserving the unique DNA of our brands. I know Tapestry's team has great respect for our reputation, designing exceptional, innovative luxury products. Versace, Jimmy Choo and Michael Kors, will continue to execute on their strategies under the current leadership of Donatella Versace and Emmanuel Ginsberg, Sandra Choi and Hannah Coleman and Michael Kors and Cedric Wilmotte. We see opportunities for our dedicated employees around the world to benefit as they become part of a larger and more diversified company. I look forward to working alongside Joanne, and the Tapestry team as we move toward the closing of the transaction and bringing our 2 companies together. We know the combined company has a bright future ahead.

Now I'll turn the call back over to Scott.

SCOTT A. ROE, CFO & COO, TAPESTRY, INC.: Thanks, John, and good morning, everyone. As mentioned, we believe the acquisition of Capri Holdings will drive significant value creation. With a compelling industrial logic that is consistent with both our commitment to being disciplined financial operators and our four lens framework for evaluating all investment decisions.

First, it's an excellent strategic fit, as Joanne discussed. Broadening our reach with an attractive and resilient categories while at the same time, deepening our access to luxury consumer segments in the market. Further, it strengthens our geographic diversification given our highly complementary positions in Asia and Europe. The combination also expands our penetration of lifestyle categories where we see opportunity. Second, the combination leverages our platform capabilities with a clear opportunity to use our digital and data analytics capabilities to grow Capri's direct-to-consumer business, benefiting from a platform that is proven and profitable.

Third, as it relates to execution, this combination builds our reach in durable high-margin categories where we have expertise, enhancing our significant and consistent cash flow. And finally, this combination clears the high hurdle rate we've established for value creation and TSR.

To this end, we're expecting significant financial returns, including strong double-digit EPS accretion on an adjusted basis and compelling ROIC with the acquisition being accretive to Tapestry's existing stand-alone TSR plan.

Included in these expectations is the assumption for Capri to deliver the following on a stand-alone non-GAAP unsynergized basis. Low single-digit revenue growth over our planning horizon with a modest decline in the near term. Throughout our planning horizon, we expect direct-to-consumer penetration to increase. Further, we've assumed consistent mid-teens operating margin for the business with profits generally following the direction of revenue trends. Finally, we've incorporated the expectation for continued strong free cash flow generation in the area of $500 million per year, again, generally following the direction of revenue trends over the planning horizon.

In addition, we expect to unlock run rate cost synergies of over $200 million achieved within 3 years of closing. We see the opportunity for cost savings and supply chain efficiencies, while continuing to invest in key growth drivers, including omnichannel capabilities and brand marketing. Further, we're continuing to return capital to shareholders, contributing to our TSR. We've announced that our Board of Directors approved a 17% increase in our dividend for an expected annual dividend of $1.40 per share or a payout of $325 million in fiscal '24.

Now touching on the details of the transaction as outlined in our release. Capri shareholders will receive $57 per share in cash. The total enterprise value of the transaction of $8.5 billion represents a 9x adjusted EBITDA multiple on a trailing 12-month basis, excluding synergies and 7x including synergies. The Board of Directors of both Tapestry and Capri have unanimously approved the transaction, and we expect the deal to close in calendar year 2024, subject to customary closing conditions, approval by Capri shareholders and receipt of the required regulatory approvals.

Turning to the financing of the transaction. We secured $8 billion in fully committed bridge financing and anticipate putting in place permanent financing prior to closing through a combination of senior notes and term loans. We also expect to utilize Tapestry's excess cash to fund the transaction. In total, at the close of the transaction we expect to have a debt-to-EBITDA ratio of under 4x with an expectation to reduce our leverage by 1.5 turns to under 2.5x within 2 years of closing through a combination of debt paydown and profit growth.

Now to outline our capital allocation priorities looking forward. First, we will continue to invest in our brands and businesses to support sustainable growth. Second, we will utilize our strong free cash flow for rapid debt paydown. We are committed to maintaining a solid investment-grade rating, and we have suspended our share repurchase program in anticipation of the transaction close. We are also initiating a long-term leverage target of under 2.5x on a debt-to-EBITDA basis and expect to achieve that within 2 years of the transaction close, as mentioned. Finally, we will continue to return capital to shareholders through our dividend.

Importantly, we believe the strong cash flow profile of the combined company provides us with further opportunity for investment and capital return. To this end, following the achievement of our leverage target, over time, we expect to increase our dividend with the goal of achieving our stated target payout ratio of 35% to 40% and see the opportunity to resume share repurchases.

In closing, we see significant runway ahead and will continue to be disciplined financial operators and allocators of capital with a relentless drive to deliver meaningful shareholder value. Now I'll turn the call back to Joanne.

JOANNE C. CREVOISERAT: Thanks, Scott. Before taking your questions, I'd like to share some closing thoughts. This combination brings together 6 global iconic brands, each with unique positioning and strong relevance for modern consumers. Together, we can accelerate our strategy to build lasting customer relationships, fuel fashion innovation and product excellence, deliver compelling omnichannel experiences and power global growth. Importantly, key enablers of this strategy are our people and culture. We would not be where we are today without the power of our teams, and it will be our collective creativity, ingenuity and focus that will define our future.

We will be home to some of the top talent in the world, and we will bring to life opportunities across the organization from our brands and creative teams to our central functions, to our retail and operations teams being an incubator of growth and mobility. We will lead with our values and serve our customers through superior design, craftsmanship and brand experiences. I strongly believe Tapestry and Capri share similar goals. And together as

one company we will have an even greater positive impact on consumers, employees and communities around the world. I am inspired by this tremendous opportunity and confident in our future as a powerful global house of iconic luxury and fashion brands.

I'd now like to open it up to your questions.

Questions and Answers

OPERATOR: (Operator Instructions) Your first question comes from Bob Drbul of Guggenheim.

ROBERT SCOTT DRBUL, SENIOR MD, GUGGENHEIM SECURITIES, LLC, RESEARCH DIVISION: Congratulations. I have got 2 questions. The first 1 is, can you just talk a little bit more on the decision to expand the portfolio now? And I guess the second one sort of follows that. But can you expand on what was your process like and really elaborate a bit more on your vision or strategy for the future?

JOANNE C. CREVOISERAT: And thanks, Bob. We're excited to be here. And maybe just to start, Tapestry is in a position of strength. Over the last few years, we've transformed our business. We've leaned into brand building with our portfolio of iconic brands, we've created a dynamic platform with digital and data capabilities, which has enabled us to deliver strong and consistent results. And we see these as competitive advantages that are increasingly important in the environment today, and they're also scalable. So as we thought about the future, we explored opportunities that would accelerate our strategic agenda but also importantly driving accretion to our already strong organic growth plan.

It became very clear that Capri was an exceptional fit on a number of dimensions. First, we admire the brand, Versace, Jimmy Choo and Michael Kors, truly iconic brands. And this combination expands our reach across customer segments, across geographies and product categories. And it gives us an opportunity to leverage our direct-to-consumer platform and importantly, increases our access to the luxury consumer. This combination will drive strong returns overall.

As I think about the vision, you asked about our vision. It really is about taking iconic brands with legal heritage and design and craftsmanship and combining them with our modern consumer engagement platform that will yield more innovation, more connectivity and more relevant, which is luxury at its best. And we'll nurture it with our culture. We will be the best home for talent in the industry and that is what will solidify Tapestry's future growth.

OPERATOR: Your next question comes from Ike Boruchow of Wells Fargo.

IRWIN BERNARD BORUCHOW, MD AND SENIOR SPECIALTY RETAIL ANALYST, WELLS FARGO SECURITIES, LLC, RESEARCH DIVISION: Congrats to everybody. Two from me. I'm not sure for Joanne, Scott, but just a little bit more detail on the $200 million of synergies and the time line in which you expect to recognize those. I think Scott, you said over the next 3 years as well as your approach to integration. And then a quick follow-up. Scott, in your prior life, there was not just acquisitions, but a lot of smaller divestitures. Do you have any thoughts on the overall portfolio as it looks to exist? Is this what we should expect? Are there other changes that you might expect over the next 12 months or so, just kind of curious any information there.

JOANNE C. CREVOISERAT: I was just going to start with the high level. Scott, you can take us through the details on the synergies. But just from a portfolio standpoint, this is -- we're pulling together 6 iconic brands that we see tremendous opportunity to drive growth. And our focus for integration is to make sure that we're leveraging the power of our platform to help advance and accelerate the strategic agenda of the brands on our platform. So that's our near-term focus, Ike.

And in terms of integration, Scott can take you through the synergies. But strategically, the way we think about integration is to make sure we're taking advantage of the places where we have deep expertise and scale and leveraging that. And in the places where we don't, we've learned a lot over the last few years, we'll take a lighter touch. So that's sort of the strategic framework, but I'll pass it over -- back over to Scott.

SCOTT A. ROE: Yes. Thanks, Joanne. And Ike, you are right. We said over $200 million in synergies. First of all, where that comes from, Joanne just said it, right? We're going to be choiceful. We've learned -- this organization has learned over the years where we can really add value. And in those places, that's where we're going to focus where the [valmet] kind of leads us in terms of the opportunities and in other areas. We'll have a much lighter touch overall. So if you think about the areas it's coming from, of course, the normal duplicated corporate structure, corporate cost and really, we think in supply chain is one of those areas that's going to drive a lot of that value. So we have deep expertise and capabilities, for example, in the leather goods area. We think that's an area where we could find a lot of opportunities, better utilization of distribution platforms and nodes, efficiencies around logistics and transportation. These are areas that we see driving a lot of value.

Now some of those take a little bit of integration work to unlock. So as you think about that $200 million plus over the 3-year period, think of it being a little more [black pleated] to the second half of that 3-year period as some of the integration activities need to unlock that value.

IRWIN BERNARD BORUCHOW: And on divestitures or just pruning your portfolio? Any thoughts?

SCOTT A. ROE: Yes. I think Joanne said it, right? I mean, these are great brands, and we're excited to be the owners of these brands and look forward to maximizing the value. We think -- we're a good owner, and we have a lot to offer here in terms of accelerating the already exciting growth plans that these brands and leaders have laid out.

OPERATOR: (Operator Instructions) At this time we'll take our next question from Lorraine Hutchinson of Bank of America.

LORRAINE CORRINE MAIKIS HUTCHINSON, MD IN EQUITY RESEARCH, BOFA SECURITIES, RESEARCH DIVISION: The Michael Kors brand has been experiencing some struggles in wholesale. As you are building your accretion, did you take a large wholesale unwind into account? Or how did you contemplate some of the struggles that they've been having?

JOANNE C. CREVOISERAT: I'll start with the strategic and then maybe Scott can follow up with the modeling, Lorraine. As you would likely expect from us, we've done a lot of work and research, and we've been data-led as we've embarked on this and I have a tremendous amount of respect for all 3 of the brands we've acquired and we fielded research globally on these brands and talk to consumers about how they perceive these brands. And I will say these are strong brands that are well positioned in attractive markets and market segments. And they have clear strategies for growth. I've had great conversations with the CEOs of these businesses. They have clear strategies for growth in accessories. Direct-to-consumer is an opportunity we see and base fee as well, as well as digital. Opportunities in Asia, opportunities in men's. And working together with the benefits of our platform, we think we can accelerate that growth. So we do see the opportunity to increase the direct-to-consumer penetration over time. And I'll pop it to Scott to let you know how we modeled it.

SCOTT A. ROE: Yes. And just, I guess, building to what Joanne just said, sort of low single digits, and this is [pretty] overall in terms of how we underrate the model that drives all the financial returns that we've been speaking to. Indeed, does assume that trend that we see in the business over the last several quarters in terms of the trajectory and the mix of the business continuing in that low single-digit kind of growth for the planning horizon. And given that the penetration of direct-to-consumer will continue to increase in that period, by definition, that means less reliance on the wholesale is the other side of that equation.

OPERATOR: Your next question is from Matthew Boss of JPMorgan.

MATTHEW ROBERT BOSS, MD & SENIOR ANALYST, JPMORGAN CHASE & CO, RESEARCH DIVISION: Congrats as well. So maybe 2-part question. Joanne, could you elaborate on the opportunity this combination provides to expand market share, just using the greater size and scale in the $200 billion total addressable market that you cited. And then as we think about data and digital, to me, these have been the 2 key foundational accelerators that you've talked a lot about post-pandemic for Tapestry. So just maybe could you speak to areas of opportunity you see to leverage your own consumer engagement platform across the Capri brands?

JOANNE C. CREVOISERAT: Yes. So I'll address the market share. Well, I'll address both of your questions, Matt. As it relates to market share, we have a portfolio -- we're combining portfolios that are incredibly complementary. And we see an opportunity to leverage our complementary strengths to help drive growth across our portfolio. That means in our brands as well as with their brands. And I talked about the strength that they have in Europe, we can learn a lot from how they've built their businesses in Europe. We have now with the addition of their brands, even deeper access into a luxury consumer and luxury segment in the market, which is a new market for us to tap into. And as we accelerate the growth of those brands, I think you'll see us taking share there.

And then you mentioned our platform, but from a share perspective, we have a lot of opportunity to share our expertise and learning in building a modern technology platform with advanced digital capabilities, advanced marketing technology and capabilities to attract a customer and engage customers digitally and grow our digital business. And you'll note that their penetration in the digital space is lower than ours. So we see that as an opportunity to grow share.

And the data and digital platform that we've developed is definitely scalable. We've leveraged that platform across our brands and it's really driving a lot of growth, customer acquisition, but we've embedded those capabilities throughout our value chain in our organization, from how we manage inventories, all the way through to where we allocate our assortments in our stores to what product we develop for which customers to our marketing, it's really deeply embedded. And that's where we gain traction and see returns. So those are things that we think will apply across the portfolio to all 6 brands. So we're very excited about the opportunity ahead.

SCOTT A. ROE: If you think about to -- that we mentioned it in the prepared remarks, but the complementary trend on the geographic standpoint is also an opportunity. And we can certainly benefit and learn from the strong European platform, from the Capri business. And likewise, we have a very strong and deep platform from an Asia and China perspective. So it's both diversification as well as unlocking some new growth vectors for all 6 of the brands really can -- slightly different perspectives on a geographic basis.

OPERATOR: Your next question is from Brooke Roach of Goldman Sachs.

BROOKE SILER ROACH, RESEARCH ANALYST, GOLDMAN SACHS GROUP, INC., RESEARCH DIVISION: Scott, you just mentioned the opportunities for growth factors and diversification on an international level. I'm wondering if you could elaborate a little bit more on how you see the opportunity for the combined portfolio domestically versus internationally? How much is the strategic rationale of this business combination driven by the opportunities to accelerate growth in Asia and Europe relative to the opportunity that you see in North America?

SCOTT A. ROE: Yes. Maybe just to start with the numbers and then turn it to you, Joanne, for the strategic perspective. But this would -- again, this is a diversification of the combined entity. And if we look, North America is still the largest market, but we see internationally, we will have relatively greater international penetration. And of course, we see a lot of opportunity on both sides of -- both synergies and reverse synergies as we think about the opportunities for growth.

JOANNE C. CREVOISERAT: Yes. And I mentioned earlier that the data and digital platform will help across all brands and all regions. So that's an opportunity to increase the digital penetration, deepen the engagement with consumers in North America as well as globally. And one thing I did mention earlier, but it is really powerful is we also see some synergy opportunity with our categories, product categories. Capri has real deep expertise in footwear and ready-to-wear. And those are categories that we see opportunities to grow across the portfolio. So I do think -- and again, that will benefit all regions, North America as well as our international regions. So this is a powerful combination and it's -- it reflects the strength of both businesses coming together that drive this real tangible value creation opportunity.

OPERATOR: Your next question is from Oliver Chen of TD Cowen.

OLIVER CHEN, MD & SENIOR EQUITY RESEARCH ANALYST, TD COWEN, RESEARCH DIVISION: Very exciting. Tapestry has done a great job with cultural relevance, future speed, express and luxury in the CDP, of course. At the Michael Kors brand, what do you see of opportunities to intensify both cultural relevance and as you

think about the Michael Kors opportunity and segmentation between the outlets versus full price as well as the store experience. Would love your thoughts. I know you've been engaged in different kinds of turnarounds at the Coach brand in the past. So what do you see as your hypothesis for what will happen to Michael Kors over time? We're also getting questions regarding the market and the antitrust/approval. So would love any thoughts there in terms of what is a pretty fragmented market at different price points?

JOANNE C. CREVOISERAT: Yes. I'll start with the Michael Kors brand. We're excited to be able to accelerate the trends in Michael Kors. As I said earlier, we feel that a lot of research, both our own research, third-party research as we evaluated this transaction, and it confirms what we already knew. Michael Kors is a strong brand and it's well positioned in the market with strong consumer resonance and awareness across customer demographic, in fact, they have -- their customer base skews slightly younger and more diverse. It's an attractive customer segment distinctive positioning in the market.

And we'll work with the Michael Kors team to accelerate their view on modernizing the jet-set luxury positioning and reaching out to consumers and driving engagement, improving the brand experience. We've had conversations about their strategies around improving the brand experience. And in my conversations with Michael and Cedric, those are our priorities that have come up, and we'll be focused on that as Tapestry -- we're brand builders and having these 6 iconic brands is meaningful. These are -- there's a scarcity of really true luxury brands in the market. And we're going to nurture these brands and make sure we can accelerate the growth strategies that they're on.

OPERATOR: Your next question is from Mark Altschwager of Baird.

MARK R. ALTSCHWAGER, SENIOR RESEARCH ANALYST, ROBERT W. BAIRD & CO. INCORPORATED, RESEARCH DIVISION: Let me offer my congrats as well. I guess 2 for me. First for Scott. I think you mentioned that you are planning the Capri business down initially. Maybe just talk a little bit more about the drivers there. Is that baking in conservatism across the portfolio? Or are there perhaps pockets of the business you're planning to proactively shrink initially? I think one of the slides in the investor presentation says that you expect mid-single-digit industry CAGR growth to continue. So maybe just reconcile that with the plans for Capri here in the near term.

And then, Joanne, you commented that a lot of the investments you've made at Tapestry in recent years are scalable. But that said, I'm curious if there are any meaningful incremental investments needed to support the larger platform.

SCOTT A. ROE: Yes. So I'll start on the modeling question and how we thought about it. Mark, you pretty much got all the facts in there, right? We did assume low single digit over the first 3 years being down in the current year. And as I think I said in an earlier question, we really looked at the trends that are in place. And remember, we don't own the business at this point, right? And their management had talked about the trajectory of the wholesale business and contracting that as well as building on the strength in direct-to-consumer. And in general, that's the drivers of the modeling near term and then accelerating through that period.

The comment to reconcile back to mid-single digits is these are strong brands that are well positioned, we've done the work, we've understood the consumer relevance of all these brands, the TAMs they play in, which are really attractive and they're uniquely positioned against them. So there is -- we believe this business can grow at least with the market, which should be in that mid-single-digit range over time when you get through the near-term issues relative to the trajectory of the wholesale vis-a-vis the direct-to-consumer business.

JOANNE C. CREVOISERAT: And as it relates to the scalable nature of our platform, Oliver (sic) [Mark], the capabilities that we've developed are scalable. The technology is scalable to new brands. There are obviously some integration costs related to bringing that on board, but we think those are onetime and there's a lot to learn from the way that we've integrated the technology into our business every day. So we feel great about the scalability of the platform, and it was one of the drivers of our decision to expand our portfolio.

OPERATOR: Your next question is from Paul Lejuez of Citigroup.

PAUL LAWRENCE LEJUEZ, MD AND SENIOR ANALYST, CITIGROUP INC., RESEARCH DIVISION: We go talk a little bit more about the synergies to (inaudible) plus. And maybe some detail in terms of how much you anticipate coming from corporate versus supply chain. And I'm also curious where you're not [building] synergies at this point where you feel maybe once you get under the hood you might actually find somewhere else might you be looking. And anything on timing on the corporate versus supply chain versus other, I would love to know that as well.

SCOTT A. ROE: Yes. I think I got the question. So again, without going too much into detail because I think you said it right. We got yet more under the hood. We've done the work that we can. And I think we have a good understanding, if you're asking, are we a little conservative, perhaps. I mean, I would say everything that we've modeled, we have high confidence around and we see -- we have deep expertise and where we have that understanding and we see opportunities to accelerate the growth, either in the top line or profit, that's kind of what we've modeled in.

The synergies that we have are cost related or related to the supply chain. I told you without breaking down in great detail, the majority of those are coming from [cheap places]. The overlapping corporate facilities, obviously, 2 public companies becoming one. There are some things that are not required in that scenario. And then in the supply chain, again, leather goods being a particular competency in this business for a long time and where we have a lot of know-how, we believe that we can add some value here, better utilization of the distribution platform, freight logistics, duty optimization. These are things that we're pretty good at as an organization. And we see an opportunity to really build on what the pre business has already done and find some real efficiencies out.

PAUL LAWRENCE LEJUEZ: Got it. And Scott, you've been part of several transactions. I'm curious what you think are the biggest hurdles for this one?

SCOTT A. ROE: Well, I would start with the strategic rationale of this, I think, is so strong, which really helps us when we think about the balanced view of this transaction, right? We have know-how in a lot of the key areas that are the value drivers. This is very complementary, unique brands that are uniquely positioned. So they're additive from our standpoint. A lot of really capable leaders that we look forward to bringing into our fold. They're running a nice business on their own. And so I think putting together with the capabilities and platforms that we build in Tapestry, I think this is going to be about as stronger than industrial logic reveal that at least that I see on a personal level.

And then coupled that with, I think, very prudent and attractive financials. So we are -- we have not, I think, stretched our assumptions. We've got low single digits. We've got the synergies of $200 million. We are really confident that we have a prudent plan. And you've seen the financial returns, right? They're very compelling. So there's always a change in combinations and deals that need to be managed. I think this is a team that has learned a lot along the way. You heard Joanne say, we're going to be very choiceful. We've got great teams and great partners, and I think we've got a really prudent approach to delivering the value together on the transaction.

OPERATOR: Our final question comes from Aneesha Sherman of Bernstein.

ANEESHA SHERMAN, RESEARCH ANALYST, SANFORD C. BERNSTEIN & CO., LLC., RESEARCH DIVISION: I'm curious, both your companies have had some experience in the last few years with acquisitions and integrations, and those integrations have been complicated and have taken several years. This is on a much bigger scale. Can you talk about what you've learned from the 4 different acquisitions that you've done combined over the last 5, 6 years? And where you think you can smoothen out the integration of this acquisition?

JOANNE C. CREVOISERAT: Sure. It's a great question. And I can speak for Tapestry. This is a management team that is focused. We do have the experience of becoming a multi-brand company and bringing in brands into our portfolio. And we've learned a lot of lessons from that history. And I would say that the key drivers of our success has been to make sure that we're clarifying our brand positioning and crystallizing our target customer. Each of these brands has unique brand DNA, unique positions in the market and distinctive positions in the market and distinctive customer segments. So ensuring that we're keeping in focus and remaining focused on the true DNA and core DNA of the brand and customers -- and from there, it's about strengthening ways of working, applying some of the platform capabilities of data and analytics.

The key there hasn't been just to put it over the top. It's really having our leaders and the decision makers in our organization embrace the technology, understand the analytics and the insights and leverage it in their day-to-day activities. And as we've gone through that transformation, we've also changed the focus of our organization and really changed the shape of our P&L to invest more in brand building. And that is something, I think, that will carry over -- well, I know, will carry over to how we think about this transition. Our focus is on building our brands, investing in our brands, investing in capabilities. And where we're not -- we don't have expertise and we can't bring scale or benefit to the equation, we'll take a lighter touch. So there are trade-offs. We've seen them. We've learned a lot, and we understand them. And I think we're going into this eyes wide open, but really excited about the value to unlock here.

OPERATOR: That concludes our question-and-answer session. I will now turn it over to Joanne for some concluding remarks.

JOANNE C. CREVOISERAT: Well, first, I want to say thank you to everyone who joined us this morning. This is an exciting day for Tapestry. It's a transformational moment for our companies. This combination brings together 6 iconic and complementary global brands, and importantly, 33,000 team members around the world. Together, I see a significant opportunity to accelerate our growth strategies and deliver superior value to our people, consumers, communities and shareholders. I'm confident in Tapestry's bright future and inspired by what we're creating. Have a great day, everyone. Thank you for joining us.

OPERATOR: This concludes Tapestry's earnings conference call. We thank you for your participation.

Load-Date: August 13, 2023